HAMBRO CANADA LIMITED

1976 ANNUAL REPORT

HAMBRO CANADA LIMITED

DIRECTORS AND OFFICERS

C. E. A. Hambro
Chairman of the Board, Director

K. A. Roberts
Deputy Chairman of the Board, President and Chief Executive Officer, Director

H. F. Teney, Q.C.
Vice-President (Corporate Affairs), Director

J. B. L. Thomas, F.C.A.
Vice-President (Financial Services) and Treasurer, Director

P. C. Finlay, Q.C.
Vice-President, Director

E. R. E. Carter, *Director*

R. N. Hambro, *Director*

P. D. Hill-Wood, *Director*

C. S. MacNaughton, *Director*

R. A. Wheeler, *Director*

E. K. Roberts, C.A., *Group Controller*

J. W. Lay, *Secretary*

AUDIT COMMITTEE

P. C. Finlay, Q.C., *Chairman*

P. D. Hill-Wood

R. A. Wheeler

J. W. Lay, *Secretary*

AUDITORS

Clarkson, Gordon & Co.

HEAD OFFICE

P.O. Box 146, Royal Trust Tower, Toronto-Dominion Centre
Toronto M5K 1H6, Ontario

HAMBRO CANADA LIMITED

TO THE SHAREHOLDERS:

Earnings for the year ended December 31, 1976, before extraordinary items, were $1,517,000 compared with $601,000 for 1975. As mentioned in the Notes to the Financial Statements (Note 12) it has been decided to write down the carrying value of the investment in McIntyre Mines Limited by $2,000,000 and this amount is included in the amount of $1,446,000 "Extraordinary Items" deducted from earnings this year.

Pursuant to the offer made October 5, 1976 by Canada Trustco Mortgage Company your Corporation acquired 600,860 Class A common shares of Canada Trustco in exchange for its holding of 1,001,434 common shares of Ontario Trust Company. Your Corporation is now a substantial shareholder in one of Canada's largest and fastest growing financial institutions.

Net income of FOODEX Systems Limited in which your Corporation has a 62.8% interest, was $3.3 million or 75¢ per share against $2.8 million or 64¢ for 1975. The PONDEROSA Steak House Division generated gross revenues for the year of $45.7 million, an increase of 21% over 1975, while net income for 1976 of $2.5 million represented an increase of 40% over 1975. Expansion of the PONDEROSA Division continues. At the end of 1976 87 Steak Houses were open. Units have been opened in 1977 in Timmins, Ontario and Winnipeg, Manitoba and two others are under construction in St. Thomas and Orillia, Ontario. Additional units will be opened this year. Excellent progress is being made in the development of the FRANK VETERE'S Pizzeria and Tavern Division. At the end of the year, four units were open and a fifth unit opened in northwest Toronto (Keele & Wilson) in February, 1977. It is expected that at least 15 FRANK VETERE'S will be either open or under construction by the end of 1977.

The management of FOODEX expect the FRANK VETERE'S chain to equal and probably exceed the PONDEROSA Steak House chain in terms of growth and profitability.

At the Annual Meeting of Shareholders of FOODEX held on May 16 the Chairman announced that FOODEX has renegotiated its bank debt on favourable terms, one of the benefits of which will be to facilitate the expansion programmes of the PONDEROSA and FRANK VETERE'S chains.

As was announced May 10, 1977 the agreement with Menkes Developments Inc. for the purchase of your Corporation's wholly-owned real estate subsidiary Peel-Elder Developments Limited was terminated by mutual consent. It remains the opinion of your Board of Directors that the best interests of the Corporation will be served by the sale of Peel-Elder Developments Limited and consideration continues to be directed towards this end.

On behalf of the Board

Chairman

K A Roberts

Deputy Chairman,
President and Chief Executive Officer

May 24, 1977.

HAMBRO CANADA LIMITED

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1976

(with comparative figures for 1975)

	1976	1975
Equity in earnings of:		
Unconsolidated subsidiaries —		
Foodex Systems Limited	$ 1,967,000	$ 1,673,000
Ontario Trust Company (note 3)	930,000	504,000
Former associated corporation		120,000
Loss on real estate operations (note 2)	(1,179,000)	(995,000)
Dividends and interest (including interest income on advances to wholly-owned real estate subsidiary of $811,000 in 1976 (1975 — $747,000))	1,160,000	944,000
Loss on security trading		(201,000)
Net loss and provision for loss on investments	(578,000)	(261,000)
Other	468,000	501,000
Earnings before the undernoted	2,768,000	2,285,000
General and administrative expenses	658,000	1,099,000
Interest on bank indebtedness	218,000	315,000
Minority interest	115,000	127,000
	991,000	1,541,000
Earnings before income taxes and extraordinary items	1,777,000	744,000
Income taxes (note 10)	260,000	143,000
Earnings before extraordinary items	1,517,000	601,000
Extraordinary items (note 12)	(1,446,000)	1,898,000
Earnings for the year	$ 71,000	$ 2,499,000
Earnings per common and preference share (note 9):		
Earnings before extraordinary items	$0.21	$0.08
Earnings for the year	$0.01	$0.34

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)

ASSETS

	1976	1975
Cash and short-term deposits (note 6)	$ 1,771,000	$ 1,805,000
Trading securities (quoted market value $307,000) (note 6)	294,000	—
Receivables:		
Mortgages, loans and other receivables (note 4)	1,135,000	1,740,000
Due under employee share purchase plans (note 5)	1,069,000	1,069,000
	2,204,000	2,809,000
Investments (see Consolidated Summary of Investments — Appendix A) (quoted market value: December 31, 1976 — $29,713,000; December 31, 1975 — $16,295,000) (notes 3 and 6)	37,301,000	36,554,000
Real estate assets of wholly-owned subsidiary (note 2)	121,794,000	124,990,000
Other assets (note 14(b))	339,000	72,000
	$163,703,000	$166,230,000

(See accompanying notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1976
(with comparative figures at December 31, 1975)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1976	1975
Liabilities:		
Bank demand loans (note 6)	$ 2,419,000	$ 2,439,000
Accounts payable and accrued liabilities	1,199,000	763,000
Income taxes payable	36,000	78,000
	3,654,000	3,280,000
Liabilities of wholly-owned real estate subsidiary (note 2)	128,552,000	130,479,000
Minority interest (note 7)	1,374,000	2,419,000
Shareholders' equity (note 8):		
Capital	30,846,000	30,846,000
Contributed surplus	519,000	519,000
Deficit	(1,242,000)	(1,313,000)
	30,123,000	30,052,000
	$163,703,000	$166,230,000

On behalf of the Board:

, Director

K A Roberts , Director

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED
CONSOLIDATED STATEMENT OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 1976

(with comparative figures for 1975)

	1976	1975
Deficit, beginning of year	$ (1,313,000)	$ (3,858,000)
Earnings for the year	71,000	2,499,000
	(1,242,000)	(1,359,000)
Realization of excess of ascribed fair value of certain net assets over book value (note 8(a))		46,000
Deficit, end of year	$ (1,242,000)	$ (1,313,000)

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 1976

(with comparative figures for 1975)

	1976	1975
Funds were provided from:		
Operations —		
Earnings before extraordinary items	$ 1,517,000	
Add charges (deduct credits) which do not represent a flow of funds:		
Excess of equity in net earnings of subsidiary corporations over dividends received of $50,000	(2,847,000)	
Depreciation and amortization	1,002,000	
Deferred income taxes	1,634,000	
Minority interest net of dividends paid of $102,000	13,000	
Provision for loss on investments	578,000	
	1,897,000	
Decrease (increase) in receivables	605,000	$ (19,000)
Increase in accounts payable and accrued liabilities	436,000	
Increase (decrease) in real estate assets, less liabilities, of wholly-owned subsidiary	(1,356,000)	(134,000)
Proceeds on the sale of investments		3,864,000
Other (net)		225,000
	1,582,000	3,936,000
Funds were applied to:		
Operations —		
(Earnings) before extraordinary items		(601,000)
Credits (charges) which do not represent a flow of funds:		
Excess of equity in net earnings of associated and subsidiary corporations over dividends received of $45,000		2,252,000
Depreciation and amortization		(1,100,000)
Deferred income taxes		452,000
Net loss on investments		(312,000)
		691,000
Increase in investments (net)	408,000	412,000
Decrease in bank demand loan	20,000	2,587,000
Decrease in minority interest (net)	685,000	88,000
Decrease in accounts payable and accrued liabilities		1,769,000
Other (net)	209,000	
	1,322,000	5,547,000
Excess of funds provided over applied (applied over provided)	260,000	(1,611,000)
Cash, short-term deposits and trading securities, beginning of year	1,805,000	3,416,000
Cash, short-term deposits and trading securities, end of year	$ 2,065,000	$ 1,805,000

(See accompanying notes to consolidated financial statements)

HAMBRO CANADA LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1976

1. Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of Hambro Canada Limited (the "Corporation") and those subsidiaries whose activities are integrated with those of the Corporation. Integrated activities are considered to be those of a holding, investment or real estate nature. All consolidated subsidiaries, except Aetna-Goldale Investments Limited (see note 13), are wholly-owned.

On May 10, 1977, an agreement entered into earlier in 1977 to sell all shares of the wholly-owned real estate subsidiary, Peel-Elder Developments Limited ("Peel-Elder"), was terminated by mutual consent. Since management has indicated a willingness to sell the real estate operations of Peel-Elder, the real estate assets, liabilities and results of that subsidiary's real estate operations have been summarized and segregated in the accompanying consolidated financial statements, as more fully described in note 2. This change in basis of presentation has been given retroactive effect in the consolidated financial statements, with 1975 comparative amounts similarly summarized and segregated.

(b) Investments —

(i) Effectively controlled corporations:

Effectively controlled corporations, including non-integrated subsidiaries, are accounted for on the equity basis. Any difference between the purchase price of such investments and the estimated fair value of the underlying net tangible assets at dates of acquisition is left unamortized in the carrying value of the investments, provided that such difference arose prior to March 31, 1974 and further provided there is no evidence of impairment in the value of the investment. In accordance with generally accepted accounting principles, such differences arising after March 31, 1974 are amortized over forty years.

(ii) Other corporations:

Other corporations are carried at cost less, where applicable, provisions for loss in value.

(c) Trading securities —

Trading securities are carried at the lower of average cost and market as determined by comparing the aggregate cost of the portfolio with its aggregate quoted market value.

(d) Real estate activities —

(i) Land and house sales are recorded at the date of transfer of title. Condominium sales are recorded when the amount due on closing is received. Land purchasers are required to pay not less than 15% of the purchase price on closing.

(ii) Income from commercial rental properties is recorded from date of occupancy. Income from residential rental properties is recorded from the date that the property reaches 75% occupancy. Interest, taxes, and other carrying costs are capitalized until such dates.

(iii) Land inventories are valued at cost plus interest, realty taxes and servicing costs, which is less than estimated market value. Such costs are capitalized as long as market value exceeds the total carrying value. Interest and realty taxes of $1,244,000 were capitalized during 1976 (1975 — $1,123,000).

Housing inventories are valued at cost which is less than estimated market value.

Building materials are valued at the lower of cost and net realizable value.

(iv) Depreciation policy —

Rental properties:

Sinking fund method based on an estimated useful life of forty years which will write off the cost of the buildings in a series of equal annual instalments plus an interest factor of 5% compounded annually.

Apartment equipment:

10% or 15% straight-line method according to classification.

Other equipment:

20% or 30% declining balance method according to classification.

Shopping centre fixtures:

4% or 35% according to classification.

(v) Interest —

Interest on general borrowing which is attributed to land and housing inventory and to rental properties under construction is added to the carrying value of these assets. Interest attributable to other assets is charged against operations as incurred.

(e) Deferred income taxes —

For income tax purposes, certain expenses are claimed in advance of charging such amounts in the financial statements. The resulting tax savings are set aside in the balance sheet as deferred income taxes to be credited to income in future years when expenses claimed for tax purposes are less than the related amounts charged in the financial statements.

2. Peel-Elder Developments Limited ("Peel-Elder")

Peel-Elder is a major diversified real estate corporation engaged primarily in land development, real estate leasing and management and in new residential, industrial and commercial construction. The real estate assets and liabilities of Peel-Elder, as summarized and segregated in the accompanying consolidated balance sheet in accordance with the basis of presentation described in note 1(a), are as follows:

	December 31	
	1976	1975
Real estate assets —		
Accounts receivable	$ 1,697,000	$ 2,331,000
Land, housing and building material inventories	25,073,000	33,807,000
Rental properties, equipment and fixtures, less accumulated depreciation of $5,379,000 in 1976 and $4,478,000 in 1975	76,941,000	78,858,000
Mortgages and other assets	18,083,000	9,994,000
Total assets	$121,794,000	$124,990,000
Real estate liabilities —		
Bank demand loans (see note 6)	$ 25,250,000	$ 20,773,000
Bank term loans (see note 6)	29,996,000	42,775,000
Mortgages and notes payable	59,193,000	54,582,000
Deferred income taxes	10,538,000	8,904,000
Other liabilities (excluding $8,496,000 in 1976 and $8,083,000 in 1975 due to the Corporation and an affiliate and eliminated on consolidation)	3,575,000	3,445,000
Total liabilities	$128,552,000	$130,479,000

The approximate aggregate principal amounts due on Peel-Elder's bank term loans, mortgages and notes payable in the next five years are as follows:

	Bank term loans	Mortgages and notes payable
1977 —	$5,000,000	$1,130,000
1978 —	5,000,000	5,437,000
1979 —	5,000,000	1,668,000
1980 —	5,000,000	1,123,000
1981 —	5,000,000	1,209,000

The results of Peel-Elder's real estate operations are summarized as follows:

	Year ended December 31	
	1976	1975
Revenue from sale and rental of real estate and sale of building materials	$38,948,000	$26,867,000
Cost of sales and operating:		
Expenses	29,799,000	21,341,000
Depreciation	991,000	1,088,000
Interest	7,664,000	6,218,000
	38,454,000	28,647,000
Earnings (loss) before undernoted items	494,000	(1,780,000)
Income taxes (recovery) including deferred taxes of $1,634,000 in 1976 and ($437,000) in 1975	1,673,000	(785,000)
Loss for the year (1975 before extraordinary item — see note 12)	$(1,179,000)	$ (995,000)

The provision for income taxes in 1976 arose from the sale of certain properties which had a cost for tax purposes which was less than the related carrying value in Peel-Elder's accounts.

3. Exchange of Shares in Ontario Trust Company

Pursuant to an offer made on October 5, 1976 by Canada Trustco Mortgage Company ("Canada Trustco"), the Corporation acquired 600,860 Class A common shares of Canada Trustco in exchange for its holdings of 1,001,434 common shares of the subsidiary, Ontario Trust Company ("Ontario Trust"), on the basis of 3 shares of Canada Trustco for each 5 shares of Ontario Trust held. Prior to the share exchange, the Corporation in 1976 had acquired through the exercise of options a further 110,000 common shares of Ontario Trust at $5.00 per share.

The Corporation's share of earnings of Ontario Trust to December 15, 1976, the effective date of the exchange, is included in the accompanying consolidated financial statements in accordance with the equity basis of accounting. No gain, however, is reflected in the financial statements as a result of the above exchange.

4. Mortgages, Loans and Other Receivables

Mortgages, loans and other receivables include a mortgage loan to a director and officer of $58,000.

5. Due Under Employee Share Purchase Plans

Non-interest bearing notes due January 31, 1978 from directors and/or senior officers in respect of shares sold under employee share purchase plans are as follows:

	December 31	
	1976	1975
Relating to shares of —		
The Corporation (100,000 shares)	$ 900,000	$ 900,000
Interpublishing (Canada) Limited, a former subsidiary (62,500 shares)	169,000	169,000
	$ 1,069,000	$ 1,069,000

Under the plans, the purchased shares are held by a trustee as collateral security for the notes. The shares are to be released to the employees as the related notes are repaid. The employees are individually liable for the amounts advanced to the trustee on their behalf; the obligation of the trustee to repay these notes is limited to amounts received from employees and proceeds realized on any sale of shares held as collateral.

6. Bank Loans

The bank demand loans of $2,419,000, as well as bank demand and term loans aggregating $55,246,000 of the wholly-owned real estate subsidiary, Peel-Elder (see note 2), are secured by debentures aggregating $80,850,000 supported by a specific mortgage on Peel-Elder's real estate holdings and a floating charge on all other property and assets of that subsidiary not subject to other specific mortgage and charge, by the pledging of substantially all of the Corporation's short-term deposits, trading securities and investments, and by the guarantee of the Corporation and substantially all consolidated subsidiaries. In addition, certain subsidiaries have pledged their accounts receivable as collateral security.

The proceeds from real estate sales (other than sales of housing units in the ordinary course of business) and investments and from equity and long-term debt financing (other than in respect of normal real estate development operations) are to be applied by Peel-Elder in reduction of the term loans. In 1976, such proceeds resulted in a reduction of $12,779,000 in the amount of that subsidiary's term loans.

7. Minority Interest

Minority interest is summarized as follows:

	December 31	
	1976	1975
5½% cumulative, redeemable Series A preferred shares of the subsidiary, Hambro Corporation of Canada Limited, of the par value of $25 each (see note 12)	$ 1,334,000	$ 2,296,000
Minority interest in common shares of other consolidated subsidiaries	40,000	123,000
	$ 1,374,000	$ 2,419,000

The preferred shares of Hambro Corporation of Canada Limited are redeemable at a premium of 3½% to February 1, 1981, 2½% to February 1, 1986 and 1½% thereafter.

8. Shareholders' Equity

Capital of the Corporation is made up as follows:

Authorized —

525,000 non-voting, redeemable preference shares of no par value, ranking equally with common shares as to dividends and redeemable at $4.35 per share

10,000,000 common shares of no par value

	December 31 1975 and 1976
Issued —	
447,699 preference shares	$ 1,948,000
6,903,867 common shares	28,898,000
	$ 30,846,000

(a) The Corporation's legal paid-up capital is $45,642,000. The difference of $14,796,000 between this amount and the amount at which capital is shown in the consolidated balance sheet resulted from lower accounting values being ascribed to common shares issued in certain business combinations which took place in prior years. The deficiency ($15,519,000) of total shareholders' equity as compared to legal capital must be eliminated before the Corporation would be technically in a position to pay dividends.

As a result of a 1972 business combination accounted for as a "reverse takeover", the stated capital for accounting purposes and the balance of the retained earnings accounts are subject to compensating adjustments as the excess of the ascribed fair value of the net assets acquired over their book value at date of acquisition is realized in subsequent transactions ($46,000 realized in 1975; nil in 1976). The unrealized increment subject to future adjustment totalled $2,118,000 at December 31, 1975 and 1976.

(b) During 1976 the Corporation issued options to officers and employees to purchase 100,000 of its authorized but unissued common shares at $2.75 per share.

Options outstanding at December 31, 1976 are as follows:

Year granted	Number of shares	Option price	Expiry date
1974	30,000	$9.00	January 31, 1978
1976	100,000	$2.75	May 19, 1979

9. Earnings Per Share

The calculations of earnings per common and preference shares are based on the weighted average of the equivalent number of Corporation shares outstanding through the year (1976 and 1975 — 7,351,566 shares).

The exercise of the outstanding stock options (see note 8(b)) would have no significant dilutive effect on earnings per share.

10. Income Taxes

At December 31,1976, the Corporation and certain subsidiaries had accumulated non-capital losses for income tax purposes of $5,452,000. Such losses are available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable, in future years. These losses, if not applied, will expire in the following years:

1978	—	$1,911,000
1979	—	3,269,000
1980	—	259,000
1981	—	13,000
		$5,452,000

In addition, the Corporation and certain consolidated subsidiaries have net capital loss carry-forwards of approximately $1,289,000. Such losses are available indefinitely to apply against future net taxable capital gains.

11. Legislation

(a) Anti-Inflation Program —

The Corporation and its subsidiaries are subject to controls on prices, profits, employee compensation and shareholder dividends under the Federal Anti-Inflation Act. Except that the subsidiary, Foodex Systems Limited, may have excess revenue for 1976 under the guidelines to the legislation, as more fully explained in note B(ii) to the consolidated summary of investments, the Corporation and its subsidiaries believe they have complied with the legislation.

(b) Residential Premises Rent Review Act —

The wholly-owned real estate subsidiary, Peel-Elder, is subject to control over rent increases on residential rental properties under the Residential Rent Review Act of the Province of Ontario. The subsidiary believes it has complied with the legislation.

12. Extraordinary Items

Extraordinary items comprise the following:

	December 31	
	1976	1975
Reduction of income taxes resulting from the carry forward of prior years' losses	$ 180,000	
Gain on —		
Redemption of preferred shares of Hambro Corporation of Canada Limited	374,000	
Sale of shares of a former subsidiary corporation		$ 51,000
Sale of rental properties of Peel-Elder, net of applicable deferred income taxes of $1,075,000		1,847,000
Write-down of investment in McIntyre Mines Limited (see below)	(2,000,000)	
	$ (1,446,000)	$ 1,898,000

In the opinion of management, a loss in value of the investment in McIntyre Mines Limited, which is other than temporary, has been sustained. Accordingly, the Corporation wrote down the carrying value of this investment in 1976 by $2,000,000 being a provision of approximately 50% of the difference between cost and quoted market value at December 31, 1976 for possible loss on ultimate disposition.

13. Subsequent Event

On January 19, 1977, the Corporation sold, for cash, its shareholdings in Aetna-Goldale Investments Limited, a 95.3% owned subsidiary, to an officer and director of the Corporation, as well as others, for its consolidated carrying value resulting in neither profit nor loss. The assets of the subsidiary consisted principally of cash.

14. Supplementary Information

(a) The aggregate direct remuneration of directors and senior officers paid or payable by the Corporation and its consolidated subsidiaries in the year ended December 31, 1976 was $393,500 (1975 — $569,000). In addition, aggregate direct remuneration paid or payable to such directors and senior officers by unconsolidated subsidiaries in the year ended December 31, 1976 was $215,000 (1975 – $130,000).

(b) Under the terms of an agreement dated August 2, 1976 with an officer of the Corporation, $300,000 was paid by each of the Corporation and Peel-Elder into a Trust Fund. Under the terms of the agreement the total amount, plus interest accruing thereon, is to be held in the Trust to secure payments due under an employment contract and a retirement arrangement. These amounts are included in other assets and real estate assets of the wholly-owned subsidiary in the consolidated balance sheet at December 31, 1976 and are being amortized over a four-year period.

AUDITORS' REPORT

To the Shareholders of
Hambro Canada Limited:

We have examined the consolidated balance sheet and consolidated summary of investments of Hambro Canada Limited as at December 31, 1976 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. For Hambro Canada Limited, and for those subsidiaries of which we are auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of all other consolidated subsidiaries and a company accounted for on the equity method.

In our opinion, subject to resolution of the matter described in note 11(a), these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in basis of presentation described in note 1(a).

Clarkson, Gordon & Co.

Toronto, Canada,
February 25, 1977 *Chartered Accountants*
(except as to note 1(a) to the consolidated financial statements which is as at May 11, 1977).

HAMBRO CANADA LIMITED

CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1976

(with comparative figures as at December 31, 1975)

Foodex Systems Limited (note B)	
Canada Trustco Mortage Company — Class A common (note C)	
Ontario Trust Company (note C)	
McIntyre Mines Limited (see note 12 to consolidated financial statements)	
Other	
Total investments	

(See accompanying notes to consolidated summary of investments)

1976				1975			
Shares controlled		Quoted market value (note A)	Carrying value	Shares controlled		Quoted market value (note A)	Carrying value
Number	% interest			Number	% interest		
2,625,141	58.9	$14,438,000	$20,822,000	2,625,141	58.9	$ 8,663,000	$18,855,000
600,860	8.6	12,618,000	11,810,000				
				891,434	56.1	4,234,000	10,380,000
75,600	3.1	2,306,000	4,608,000	75,600	3.1	2,911,000	6,608,000
		351,000	61,000			487,000	711,000
		$29,713,000	$37,301,000			$16,295,000	$36,554,000

NOTES TO CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 1976

A. The quoted market values shown do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations. In the opinion of management:

(i) There has been no long-term impairment in the underlying value of any of the Corporation's investments which has not been provided for, and

(ii) the aggregate value thereof is not less than the aggregate amount at which such investments are carried.

B. Foodex Systems Limited

Foodex is an operating and holding corporation which is primarily engaged in the restaurant business. A 62.8% owned subsidiary owns and operates racetracks in the United States.

Certain stock options on treasury shares of Foodex are held by employees of that corporation. Had these options been exercised at December 31, 1976 the Corporation's percentage of shares controlled at that date would have been reduced to 56.1%.

Additional information relating to the Corporation's investment in Foodex is as follows:

	1976	1975
The Corporation's proportion (58.9%) of net assets (including share of $7,146,000 goodwill in Foodex's accounts)	$ 14,876,000	$ 12,909,000
Adjustment to carrying value, attributed to additional goodwill and other intangible assets not requiring amortization	5,946,000	5,946,000
Carrying value at December 31	$ 20,822,000	$ 18,855,000
Revenue and net income for the year ended December 31 —		
Revenue	$ 74,035,000	$ 69,373,000
Net income before minority interest	$ 4,025,000	$ 3,530,000
Minority interest in income of subsidiaries	685,000	689,000
Net income for the year	$ 3,340,000	$ 2,841,000
The Corporation's share of net income included in consolidated earnings for the year ended December 31	$ 1,967,000	$ 1,673,000

(i) Under the terms of long-term debt agreements and Anti-Inflation legislation, Foodex is restricted in the amount of dividends it may pay to its shareholders.

(ii) Anti-Inflation Program —

Foodex is subject, under the federal government's Anti-Inflation Program (presently scheduled to be in force until December 31, 1978) to mandatory compliance with the guidelines which control prices, profit margains, employee compensation and shareholder dividends.

Under the guidelines Foodex may have excess revenue in the 1976 year, but because of special circumstances giving rise to such apparent excess, management is of the opinion that there is no actual excess revenue and accordingly, no provision has been made in the accounts. Management of Foodex has made representations to the Anti-Inflation Board and expects that the Board will provide a ruling in the near future.

(iii) Legal actions —

A Canadian subsidiary of Foodex, Albemont Limited, and five other corporations were named in 1975 as defendants in a counterclaim made by Her Majesty The Queen in right of Canada for damages and costs in an unstated amount arising out of alleged bidding practices and/or a conspiracy with respect to same said to be contrary to honest industrial usage in Canada. Counsel for Foodex understand that this action will not be proceeded with until criminal proceedings involving certain of the other defendants to the counterclaim have been disposed of and that it is possible that the action may not proceed at all as against Albemont Limited. Counsel are not able to advise at this stage what, if any, liability

Foodex may incur in this action. Management of Foodex and of Albemont Limited have no knowledge of any wrongdoing by Albemont Limited in connection with the matters referred to in the counterclaim or of the evidence, if any, supporting the allegations made against Albemont Limited, and accordingly, no provision has been made in the consolidated financial statements of Foodex for any liability in connection with this action.

C. Canada Trustco Mortgage Company — Ontario Trust Company

As explained in note 3 to the consolidated financial statements, the Corporation's previous investment in shares of Ontario Trust Company was exchanged in 1976 for class A common shares of Canada Trustco Mortgage Company. The continuity of the carrying value of the Corporation's investment is as follows:

	1976	1975
Carrying value of investment in Ontario Trust Company at beginning of year, on equity basis of accounting	$ 10,380,000	$ 9,507,000
The Corporation's share of net income included in consolidated earnings for the year	930,000	504,000
	11,310,000	10,011,000
Less dividends received during the year	50,000	45,000
	11,260,000	9,966,000
Stock options exercised for cash during the year	550,000	414,000
Carrying value of Ontario Trust Company at December 31, 1975, on equity basis of accounting		$ 10,380,000
Carrying value of Canada Trustco Mortgage Company at December 31, 1976, on cost basis of accounting	$ 11,810,000	

HAMBRO CANADA LIMITED
And Subsidiary Corporations

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1976
(with comparative figures for 1975)
(Unaudited)

	1976 (000 's)	1975 (000 's)
Funds were provided from:		
Increase in bank demand loans	$ 5,781	$ 1,335
Decrease in investments	34	1,500
Increase (decrease) in other liabilities	508	(876)
Decrease (increase) in real estate assets	754	(2,550)
Reduction in taxes due to losses carried forward	91	—
Other (net)	208	(114)
Total funds provided	7,376	(705)
Funds were applied to:		
Operations —		
Earnings (loss) for the period before extraordinary item	812	(744)
Add (deduct) charges (credits) which do not represent flows of funds:		
Equity in earnings of associated and unconsolidated subsidiaries	(1,366)	(897)
Depreciation and amortization	490	557
Deferred income taxes	(655)	(218)
Minority interest net of dividends paid of $63,000 (1975 — $64,000)	9	9
	710	1,293
Decrease in bank term loans, mortgages and notes payable	4,109	2,745
Increase (decrease) in receivables	1,053	(1,421)
Reduction in minority interest	3	88
	5,165	1,412
Total funds applied	5,875	2,705
Excess of funds provided over applied (applied over provided)	1,501	(3,410)
Cash, bank deposit receipts and trading securities at beginning of year	2,305	3,416
Cash, bank deposit receipts and trading securities at June 30	$ 3,806	$ 6

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HAMBRO CANADA LIMITED

INTERIM REPORT

FOR THE 6 MONTHS ENDED JUNE 30, 1976

13,649 ~~863-6014~~ 12,346
2,018 423-2710 341
15,667 12,687

To the Shareholders

For the six months ended June 30, 1976 the Consolidated Statement of Operations shows a profit of $903,000 or 12¢ per share compared to a loss of $744,000 or 10¢ per share for the comparable 1975 period.

Ontario Trust Company continues to enjoy substantially increased earnings. Net operating income of that Company for the six months after provision for income taxes amounted to $669,511 or 42¢ per share compared to $428,241 or 28¢ per share for the corresponding period in the previous year. This upward trend in profitability is expected to continue throughout the balance of the year. During the second quarter Ontario Trust passed the quarter billion dollar level in total assets.

Foodex Systems Limited continues to show impressive gains over 1975. In the PONDEROSA Division, for the first six months of 1976 revenues were $21,621,000, an increase of 24% and earnings were $1,007,000 or 23¢ per share, an increase of 160%. Exceptional sales and profit gains are also being enjoyed in the FRANK VETERE'S PIZZERIA AND TAVERN Division. Earnings from the subsidiary, Gibraltar Pari-Mutuel, Inc. to June 30, 1976, were satisfactory.

While gross earnings from real estate activities were up over those for the same period last year this part of our business was affected by the generally slow housing market. Revenues from our rental units and shopping centres continued to demonstrate the fundamental soundness of these assets.

Toronto

Subsequent to June 30 we closed the sale of the remaining land at Forest Hills at a price in excess of $10 million. This sale will reduce bank indebtedness and will materially improve the cash flow over the next five years.

Development of our Winnipeg lands continues. One 10 acre block was disposed of in July in an all cash sale at a satisfactory profit.

On Behalf of the Board

K. A. Roberts
Deputy Chairman

Toronto, Canada
August 6, 1976.

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HAMBRO CANADA LIMITED
And Subsidiary Corporations

CONSOLIDATED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 1976
(with comparative figures for 1975)

(Unaudited)	1976 (000's)	1975 (000's)
Real Estate Activities:		
House and land sales	$ 4,317	$ 2,656
Rental property revenue	6,271	6,959
Building material sales	3,061	2,731
	13,649	12,346
Less operating costs —		
Cost of house and land sales	3,804	2,162
Operating cost of rental properties	4,556	5,045
Cost of building materials sold	3,006	2,776
	11,366	9,983
Gross earnings from real estate activities	2,283	2,363
Financial activities:		
Equity in earnings of unconsolidated subsidiaries & associated corporation	1,366	897
Dividend and interest income	522	262
Loss on security trading	—	(202)
Loss on sale of investments	—	(738)
Other income	130	122
Gross earnings from financial activities	2,018	341
Earnings before the undernoted	4,301	2,704
General and administrative expenses	675	907
Interest	3,259	2,886
Minority interest	73	73
	4,007	3,866
Earnings (loss) before income taxes and extraordinary item	294	(1,162)
Income taxes		
— current (recoverable)	137	(200)
— deferred	(655)	(218)
	(518)	(418)
Earnings (loss) for the period before extraordinary item	812	(744)
Extraordinary item:		
Reduction of income taxes resulting from losses carried forward	91	—
Earnings (loss) for the period	$ 903	$ (744)
Earnings (loss) per common and preference share:		
Earnings (loss) before extraordinary items	$ 0.11	$ (0.10)
Earnings (loss) for the period	$ 0.12	$ (0.10)